

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 ICA-11
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 INT-05 /115 W
-----024774 052202Z /61

R 052115Z JUL 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4339
AMEMBASSY LUXEMBOURG
AMEMBASSY BRUSSELS

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USOECD

E.O. 11652: N/A
TAGS: OECD, ECON, LU, BE
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC): REVIEW OF LUXEMBOURG, JULY 10, 1978

REF: EDR(78)17

1. SECRETARIAT DRAFT REVIEW FOR LUXEMBOURG STRESSES THE
HEAVY DEPENDENCE OF LUXEMBOURG'S ECONOMIC PERFORMANCE ON
THE GLOBAL ECONOMIC SITUATION. GIVEN THIS, ACTIVITY IN
1977 WAS MEDIOCRE AT BEST DUE IN LARGE PART TO THE WEAK-
NESS IN THE STEEL SECTOR WORLDWIDE. CONSUMPTION EXPEN-
DITURE WAS WEAK (UP ONLY 1.5 PERCENT VS. 3 PERCENT IN
1976) DESPITE AN ACCELERATION IN THE GROWTH OF REAL DIS-
POSABLE INCOME (2.1 PERCENT). IT APPEARS THAT UNCERTAIN-
TIES, PARTICULARLY CONCERNING EMPLOYMENT, HAVE CAUSED A
SHARP ACCELERATION OF SAVINGS. DELAYS IN THE IMPLEMEN-
TATION OF THE STEEL RESTRUCTURING PROGRAM AND EXCESS
CAPACITY ELSEWHERE, PARTICULARLY IN MANMADE FIBERS,
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DEPRESSED INVESTMENT WHICH FELL IN 1977. ALL TOLD, THE
LUXEMBOURG ECONOMY, DESPITE SOME GAINS IN EARLY 1978
(I.E., A 6 PERCENT INCREASE IN INDUSTRIAL PRODUCTION FOR
THE FIRST FOUR MONTHS OVER A COMPARABLE PERIOD IN 1977)
HAS NOT YET RECOVERED THE EXCEPTIONAL LEVEL OF ACTIVITY
REACHED IN 1974. SHARP REDUCTIONS IN EMPLOYMENT SINCE
1975 HAVE NOT HAD THEIR FULL IMPACT IN THE UNEMPLOYMENT

RATE AS PARTICIPATION RATES HAVE FALLEN. ON THE PLUS
SIDE, THERE HAS BEEN A STEADY IMPROVEMENT IN PRICE AND
COST PERFORMANCE SINCE EARLY 1977.

2. FISCAL POLICY HAS BASICALLY SOUGHT TO RESTRAIN CUR-
RENT GOVERNMENT EXPENDITURES WHILE DIRECTING AVAILABLE
REVENUES TO (A) INVESTMENT FUNDS AND (B) TRANSFERS TO
LOW INCOME GROUPS. DESPITE PROJECTED 1977 DEFICIT, YEAR
ENDED WITH BF 1 BILLION SURPLUS WHICH, ALONG WITH PRO-
CEEDS OF \$1 BILLION BOND ISSUE IN SEPTEMBER 1977, PER-
MITTED BF 500 MILLION ADDITION TO INVESTMENT FUNDS,
REMAINDER GOING TO CONTINGENCY RESERVE NOW AMOUNTING TO
BF 6 BILLION. 1978 BUDGET AGAIN PROJECTS SMALL DEFICIT.
ACCORDING TO SECRETARIAT, DOMESTIC MONETARY POLICY IS
BASICALLY RESTRICTED TO CREDIT ALLOCATIONS TO PRIVATE
CONSUMPTION AND CONSTRUCTION; EXTERNAL ASPECTS OF MONE-
TARY POLICY ARE DETERMINED IN CONJUNCTION WITH BELGIAN
AUTHORITIES. INDUSTRIAL POLICY IS DESIGNED TO CUSHION
EFFECTS OF CAPACITY REDUCTION IN STEEL WHICH WAS EXPECTED
TO COST 7,500 JOBS BY 1983. IN RECOGNITION OF NEED TO
ABSORB THESE JOBS AND CREATE 1000 NEW JOBS PER YEAR, A
STATE ORGANISM (SNCI) TO PROMOTE INDUSTRY AND INDUSTRIAL
INVESTMENT, PARTICULARLY IN AREAS WHICH WILL DIVERSIFY
LUXEMBOURG INDUSTRY, WAS CREATED IN 1977.

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OMB-01 SS-15 INT-05 /115 W

-----024806 052204Z /61

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3. SECRETARIAT FORECASTS GNP GROWTH FOR 1978 IN NEIGHBORHOOD OF 2-1/2 PERCENT, LED BY A RECOVERY OF PRIVATE INVESTMENT (UP 5.5 PERCENT) PARTICULARLY IN STEEL SECTOR RESTRUCTURING. PRIVATE CONSUMPTION AND PUBLIC INVESTMENT WILL, IN OPINION OF SECRETARIAT, BE SUPPORTIVE OF FINAL DOMESTIC DEMAND WHILE PUBLIC CONSUMPTION WILL PLAY A MODERATING ROLE. EXPORTS ARE FORECAST TO INCREASE 3-3/4 PERCENT IN VOLUME, WHILE IMPORT VOLUME WILL DEPEND HEAVILY ON ACTUAL PACE OF INVESTMENT PROGRAM. DEMOGRAPHIC LABOR SUPPLY FACTOR, ESPECIALLY SMALL PERCENTAGE OF PERSONS REACHING RETIREMENT AGE, TOGETHER WITH WEAK DEMAND OUTLOOK POINT TO CONTINUED DETERIORATION OF LABOR MARKET CONDITION; SECRETARIAT FORECASTS UNEMPLOYMENT ABOVE 1,600 PERSONS. ON THE BRIGHT SIDE, CPI IS FORECAST TO INCREASE ONLY 4 PERCENT YEAR-ON-YEAR.

4. MISSION WOULD WELCOME ANY COMMENTS ON SECRETARIAT'S DRAFT SURVEY FROM WASHINGTON AGENCIES OR EMBASSY LUXEM-
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BOURG WHICH COULD BE PASSED ON TO SECRETARIAT OR RAISED AS QUESTIONS IN COURSE OF EDRC REVIEW OF BELGIUM/LUXEMBOURG ON JULY 10. SUMMARY OF DRAFT SURVEY ON BELGIUM SENT SEPTEL.
SALZMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, COMMITTEES
Control Number: n/a
Copy: SINGLE
Draft Date: 05 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS21279
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780276-0381
Format: TEL
From: PARIS USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780795/aaaadbsr.tel
Line Count: 154
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: cf06fc7a-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2114709
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC): REVIEW OF LUXEMBOURG, JULY 10, 1978
TAGS: ECON, LU, BE, OECD
To: STATE LUXEMBOURG
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/cf06fc7a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014